

American Lung Association of the
Plains - Gulf Region, Inc.

Financial Statements

June 30, 2012
(with comparative totals for 2011)

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Plains - Gulf Region, Inc.

Financial Statements

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(with comparative totals for 2011)

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Independent Auditor's Report

To the Board of Directors
American Lung Association of the Plains - Gulf Region, Inc.

We have audited the accompanying Statement of Financial Position of American Lung Association of the Plains - Gulf Region, Inc. and the related Statements of Activities, Cash Flows and Functional Expenses as of and for the year ended June 30, 2012. These financial statements are the responsibility of American Lung Association of the Plains - Gulf Region, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from American Lung Association of the Plains - Gulf Region, Inc.'s 2011 financial statements on which we expressed an unqualified opinion dated August 24, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of American Lung Association of the Plains - Gulf Region, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

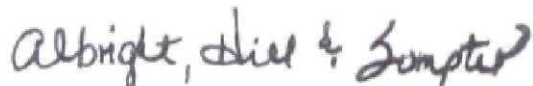
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Lung Association of the Plains - Gulf Region, Inc., as of June 30, 2012, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 24, 2012, on our consideration of American Lung Association of the Plains - Gulf Region, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope

of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the financial statements as a whole.

Albright, Hill & Sumpter, PC
Certified Public Accountants

A handwritten signature in dark ink that reads "Albright, Hill & Sumpter". The signature is written in a cursive, flowing style.

August 24, 2012

American Lung Association of the Plains - Gulf Region, Inc.
Statement of Financial Position
June 30, 2012
(with comparative totals for 2011)

Assets

	2012	2011
	Totals	Comparative Totals
Current assets		
Cash and cash equivalents	\$ 2,320,983	\$ 1,202,883
Accounts receivable	604,115	1,295,384
Pledges receivable	-	395
Prepaid expenses/inventories	158,374	105,031
Total current assets	<u>3,083,472</u>	<u>2,603,693</u>
Investments	4,664,853	7,125,377
Property and equipment, net	2,340,322	2,387,359
Prepaid pension costs	54,147	441,013
Long-term split-interest agreements	32,837	49,428
Beneficial interest in perpetual trusts	939,640	719,659
Total assets	<u>\$ 11,115,271</u>	<u>\$13,326,529</u>

Liabilities and Net Assets

Current liabilities		
Accounts payable	\$ 242,154	\$ 381,102
Accrued liabilities	333,711	511,245
Grant advances	235,254	281,038
Payable to National Office	151,683	172,826
Unearned revenue	25,000	-
Total current liabilities	<u>987,802</u>	<u>1,346,211</u>
Unfunded accumulated pension benefit obligation	296,000	137,327
Liabilities related to split-interest agreements	79,407	96,060
Total liabilities	<u>1,363,209</u>	<u>1,579,598</u>
Net assets		
Unrestricted	6,545,152	8,770,444
Temporarily restricted	1,402,180	1,391,738
Permanently restricted	1,804,730	1,584,749
Total net assets	<u>9,752,062</u>	<u>11,746,931</u>
Total liabilities and net assets	<u>\$ 11,115,271</u>	<u>\$13,326,529</u>

The accompanying notes are an integral part of this statement.

American Lung Association of the Plains - Gulf Region, Inc.

Statement of Activities For the year ended June 30, 2012 (with comparative totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Totals	2011 Comparative Totals
Public support and revenue					
Direct mail	\$3,226,832	\$ -	\$ -	\$3,226,832	\$ 3,200,997
Promotions	46,332	-	-	46,332	46,698
Special events, net of direct expenses of \$297,339	1,322,796	-	-	1,322,796	1,538,936
Other contributions					
Workplace giving	598,296	-	-	598,296	607,461
Memorials	205,618	-	-	205,618	216,252
Bequests	870,438	-	-	870,438	1,043,004
Trust income	70,045	-	-	70,045	49,783
Individual gifts	225,800	-	-	225,800	304,890
Corporate gifts	193,317	-	-	193,317	627,040
Foundation gifts	127,960	-	-	127,960	112,564
In-kind contributions	90,180	-	-	90,180	1,039,635
Revenue					
Corporate grants	150,000	-	-	150,000	49,575
Foundation grants	583,613	-	-	583,613	423,580
Government grants	1,794,822	-	-	1,794,822	1,947,762
ALA grants	15,966	-	-	15,966	35,805
Interest and dividend income	119,412	51,314	-	170,726	173,142
Program service fees	480,543	-	-	480,543	491,421
Royalties and rental income	7,679	-	-	7,679	78,896
Other	9,753	-	-	9,753	56,380
Net assets released from restrictions	66,143	(66,143)	-	-	-
Total public support and revenue	10,205,545	(14,829)	-	10,190,716	12,043,821

The accompanying notes are an integral part of this statement.

American Lung Association of the Plains - Gulf Region, Inc.

Statement of Activities For the year ended June 30, 2012 (with comparative totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Totals	2011 Comparative Totals
Expenses					
Program services					
Asthma	1,567,292	-	-	1,567,292	1,735,631
Community health	171,521	-	-	171,521	175,768
Environmental health	1,169,404	-	-	1,169,404	1,456,510
Tobacco control	4,629,437	-	-	4,629,437	4,730,008
Other lung disease	656,701	-	-	656,701	618,669
Research	453,543	-	-	453,543	466,924
Total program services	<u>8,647,898</u>	<u>-</u>	<u>-</u>	<u>8,647,898</u>	<u>9,183,510</u>
Supporting activities					
Fund raising	2,389,058	-	-	2,389,058	2,561,241
Management and general	683,342	-	-	683,342	908,028
Total supporting activities	<u>3,072,400</u>	<u>-</u>	<u>-</u>	<u>3,072,400</u>	<u>3,469,269</u>
Total expenses	<u>11,720,298</u>	<u>-</u>	<u>-</u>	<u>11,720,298</u>	<u>12,652,779</u>
Changes in net assets from operations	(1,514,753)	(14,829)	-	(1,529,582)	(608,958)
Non-operating activities					
Realized gain on investments	54,348	142,327	-	196,675	469,439
Unrealized (loss) gain on investments	(268,412)	(117,056)	-	(385,468)	485,698
Pension liabilities	(498,995)	-	-	(498,995)	(14,910)
Change in value of perpetual trusts and split-interest agreements	2,520	-	219,981	222,501	(4,608)
Sale of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>859,924</u>
Total change in net assets	(2,225,292)	10,442	219,981	(1,994,869)	1,186,585
Net assets, beginning of year	<u>8,770,444</u>	<u>1,391,738</u>	<u>1,584,749</u>	<u>11,746,931</u>	<u>10,560,346</u>
Net assets, end of year	<u>\$6,545,152</u>	<u>\$1,402,180</u>	<u>\$1,804,730</u>	<u>\$9,752,062</u>	<u>\$11,746,931</u>

The accompanying notes are an integral part of this statement.

American Lung Association of the Plains - Gulf Region, Inc.

Statement of Cash Flows For the year ended June 30, 2012 (with comparative totals for 2011)

	2012 Totals	2011 Comparative Totals
Cash flows from operating activities		
Change in net assets	\$ (1,994,869)	\$1,186,585
Adjustments to reconcile changes in net assets to net cash (used in) operating activities:		
Cash transferred from merger	-	23,739
Depreciation	115,200	132,111
(Gain) on sale of property	-	(859,924)
Realized (gain) on sale of investments	(196,675)	(469,439)
Unrealized loss (gain) on investments	385,468	(485,698)
Decrease (increase) in accounts and pledges receivable	691,664	(505,703)
(Increase) in prepaid expenses and inventories	(53,343)	(10,090)
Decrease (increase) in prepaid pension expenses	386,866	(146,882)
Decrease in long-term split-interest assets	16,591	26,959
(Increase) in beneficial interest in perpetual trusts	(219,981)	(32,906)
(Decrease) in payable to National Office	(172,826)	(91,625)
Increase in accounts payable	12,735	85,536
(Decrease) increase in grant advances	(45,784)	281,038
(Decrease) in accrued liabilities	(177,534)	(132,912)
Increase (decrease) in unearned revenue	25,000	(164,334)
Increase in unfunded accumulated pension benefit obligation	158,673	137,327
(Decrease) in split-interest liability	(16,653)	(12,970)
Net cash (used in) operating activities	<u>(1,085,468)</u>	<u>(1,039,188)</u>
Cash flows from investing activities		
Sale of investments	2,271,731	(213,745)
Purchase of property and equipment	(68,163)	(25,578)
Proceeds from sale of property and equipment	-	1,782,771
Net cash provided by investing activities	<u>2,203,568</u>	<u>1,543,448</u>
Cash flows from financing activities		
Payments on long-term debt	-	(397,078)
Cash flows (used in) financing activities	<u>-</u>	<u>(397,078)</u>
Net increase in cash	1,118,100	107,182
Beginning cash	1,202,883	1,095,701
Ending cash	<u>\$ 2,320,983</u>	<u>\$1,202,883</u>
Supplemental information:		
Interest paid	\$ 63	\$ 25,727
In-kind donations	\$ 90,180	\$1,039,635
Net non-cash assets transferred as a result of merger	\$ -	\$1,289,921

The accompanying notes are an integral part of this statement.

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American Lung Association of the Plains - Gulf Region, Inc.
Statement of Functional Expenses
For the year ended June 30, 2012
(with comparative totals for 2011)

	Asthma	Community Health	Environmental Health	Tobacco Control
Personnel expenses	\$ 596,614	\$ 58,756	\$ 404,307	\$ 2,023,481
Program expenses	199,294	75	152,089	625,024
Professional fees	58,764	6,002	153,564	275,500
Interest expense	-	-	-	-
Supplies	14,592	1,727	2,317	22,910
Telecommunications	21,561	3,037	14,510	85,773
Postage and shipping	153,909	11,288	94,099	294,449
Occupancy	91,535	9,015	62,030	310,450
Repairs and maintenance	9,589	940	6,688	40,251
Travel and conferences	33,868	2,382	15,144	138,078
Printing and publications	252,528	25,643	154,004	508,820
Dues and subscriptions	561	55	1,485	2,951
Depreciation	16,983	1,673	11,509	57,602
Service fees	745	86	435	3,286
Staff development	-	50	-	615
Volunteer development	-	-	-	100
Bad debt expense	-	-	396	-
Other taxes	-	-	-	-
Miscellaneous	-	-	-	9
Support to National Research	-	-	-	-
Total operating expenses	<u>1,450,543</u>	<u>120,729</u>	<u>1,072,577</u>	<u>4,389,299</u>
Payment to National Office	<u>116,749</u>	<u>50,792</u>	<u>96,827</u>	<u>240,138</u>
Total expenses	<u>\$ 1,567,292</u>	<u>\$ 171,521</u>	<u>\$ 1,169,404</u>	<u>\$ 4,629,437</u>

The accompanying notes are an integral part of this statement.

American Lung Association of the Plains - Gulf Region, Inc.
Statement of Functional Expenses
For the year ended June 30, 2012
(with comparative totals for 2011)

Other Lung Disease	Research	Fund Raising	Management and General	2012 Totals	2011 Comparative Totals
\$ 175,380	\$ -	\$ 822,637	\$ 322,568	\$ 4,403,743	\$ 4,561,999
126,770	-	-	-	1,103,252	754,503
16,768	8,675	192,054	26,978	738,305	1,749,380
-	-	-	63	63	25,727
4,349	1,648	7,562	8,333	63,438	109,142
6,312	-	16,178	16,068	163,439	160,618
25,142	1,639	428,181	8,011	1,016,718	1,019,515
26,907	-	64,525	56,592	621,054	626,161
2,806	-	6,748	6,471	73,493	74,646
22,534	-	64,037	137,126	413,169	424,892
38,527	883	683,377	13,775	1,677,557	1,739,880
640	-	2,275	2,564	10,531	17,621
4,992	-	11,972	10,469	115,200	132,111
1,151	-	46,999	1,199	53,901	55,593
-	-	-	431	1,096	1,211
-	-	-	904	1,004	1,681
-	-	6,337	-	6,733	9,775
-	-	-	-	-	1,702
-	-	18,228	-	18,237	1,005
-	341,986	-	-	341,986	322,837
452,278	354,831	2,371,110	611,552	10,822,919	11,789,999
204,423	98,712	17,948	71,790	897,379	862,780
<u>\$ 656,701</u>	<u>\$ 453,543</u>	<u>\$ 2,389,058</u>	<u>\$ 683,342</u>	<u>\$ 11,720,298</u>	<u>\$ 12,652,779</u>

The accompanying notes are an integral part of this statement.

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In fulfilling its responsibility for the preparation of American Lung Association of the Plains - Gulf Region, Inc.'s (the Association) financial statements and disclosures, management selects accounting principles generally accepted in the United States of America and adopts methods for their application. The application of accounting principles requires estimating, matching and timing of revenue and costs in the determination of support and expenditures. It is also necessary for management to determine, measure, allocate and make certain assumptions regarding resources and obligations within the financial process according to these principles. Below are certain significant accounting policies selected by management.

Nature and Purpose of the Association

American Lung Association of the Plains - Gulf Region, Inc. is a non-profit, charitable organization committed to fighting lung disease, a leading cause of preventable death and disability, and promoting lung health through education, advocacy, research and community programs for all residents of the central region including: Alabama, Arkansas, Kansas, Louisiana, Texas, Oklahoma, Mississippi, Missouri and Nebraska. The majority of the Association's income is derived from contributions from the general public.

Summary of Significant Accounting Policies

This summary of significant accounting policies of the Association is presented to assist in understanding the Association's financial statements. The financial statements and notes are representations of the Association's management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The Association reports information regarding its financial activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets – Unrestricted net assets represent resources that are not subject to donor imposed restrictions. Unrestricted net assets result from operating revenue, unrestricted contributions, unrestricted dividend and interest income, less expenses incurred in operations, and are used to raise contributions and for administrative functions. Unrestricted net assets may be designated for specific purposes by the Board of Directors.

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

Temporarily restricted net assets – Temporarily restricted net assets represent resources which are temporarily restricted by donor-imposed limitations. When the donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently restricted net assets – Permanently restricted net assets represent resources which are permanently restricted by the donor(s). Generally, the donor(s) of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. This information does not include sufficient detail to constitute a complete presentation in conformity with GAAP. Accordingly, the prior year information should be read in conjunction with the audited financial statements for the year ended June 30, 2011 from which the summarized information was derived.

Accounting Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates and assumptions primarily relate to valuation of investments and receivables, the lives used to depreciate fixed assets, defined benefit pension obligations and the allocation of functional expenses. Accordingly, actual results could differ from these estimates and assumptions. The methods used in making accounting estimates are believed by management to be reasonable and have been consistently applied.

Statement of Cash Flows

The Statement of Cash Flows is presented using the indirect method. For the purpose of this statement, the Association considers all cash on hand, cash in checking accounts, money market accounts and investments with maturities at acquisition of three months or less as cash and cash equivalents.

Investments

Investments are carried at estimated fair value. Realized and unrealized gains or losses on investments are determined by comparison of specific costs of acquisition to proceeds at the time of disposal, or estimated fair value at the date of the

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

Statement of Financial Position, and are reported in the Statement of Activities. The Association has an investment policy that sets guidelines and constraints to ensure that the portfolio is appropriately diversified.

Receivables

The reserve method is used in accounting for bad debts. The allowance for bad debts is evaluated quarterly, primarily by reviewing accounts greater than 90 days old, and the allowance is adjusted as deemed necessary based on experience. An account is deemed to be a bad debt when collection by internal collection efforts is determined to be unlikely. Management considers all receivables at June 30, 2012 to be collectable.

Property and Equipment

Property and equipment are stated at cost or at the estimated fair value at the date of donation, in the case of donated assets. Purchases under \$1,000 and the cost of repair and maintenance are expensed as incurred.

Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets. Lives used in computing depreciation by asset category are as follows:

Category	Lives
Buildings	40 years
Building improvements	10-15 years
Automobiles	4-5 years
Office equipment, furniture and fixtures	3-12 years

Long-lived assets, such as property and equipment, are reviewed for impairment when impairment is indicated. Impairment is based on a comparison of carrying value against undiscounted future cash flows. If impairment is identified, the assets carrying amounts are adjusted to estimated fair value. There were no such adjustments during the year ended June 30, 2012.

Grant Advances

The Association receives grants which are distributed through advance payments. Grant revenue is recorded at the time the expenses are incurred. Any funds that are received prior to the work being performed are recorded as grant advances. If not used for the specific purposes, these funds are required to be returned to the grantor.

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

Revenue Recognition

The Association accounts for contributions in accordance with Financial Accounting Standards Board (FASB) ASC 958. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions.

When a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted or permanently restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. If the restriction is met or expires in the same year the contribution is received, the amount is classified as unrestricted.

Donated materials and services are recorded at estimated fair value at the date of donation. For the year ended June 30, 2012, \$90,180 of donated materials and services have been included in public support and expenses in the financial statements.

Income Taxes

The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax has been recorded in the accompanying financial statements.

The Association is exempt from state margin taxes. Accordingly, no provision for state margin tax has been recorded in the accompanying financial statements.

Functional Allocation of Expenses

The Association allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service activity are allocated directly according to their natural classification. Other expenses, that are common to several functions, are allocated by management's estimate of resources devoted to the program or supporting service activity.

NOTE 2 – INVESTMENTS

Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements*, establishes a framework for measuring value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

value. The hierarchy gives highest priority to unadjusted quoted fair prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.
- If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

*U.S. Government
Obligations:*

Valued using quoted prices for investments with similar yields.

Equity Securities:

Quoted market prices.

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

Mutual Funds: Valued at the net asset value (NAV) per unit at year end.

Debt Securities: Valued using quoted prices for investments with similar yields and bond ratings.

The methods described above may produce fair value estimates that may not be indicative of net realizable value or reflective of future estimated fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Association's investments at estimated fair value as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
U.S. government obligations	\$ -	\$ 95,872	\$ -	\$ 95,872
Equity securities	1,411,565	-	-	1,411,565
Debt securities	-	802,028	-	802,028
Mutual funds	-	2,355,388	-	2,355,388
Total	<u>\$1,411,565</u>	<u>\$3,253,288</u>	<u>\$ -</u>	<u>\$4,664,853</u>

Investment income at June 30, 2012 included the following:

Interest and dividends	\$ 170,726
Realized gain	196,675
Unrealized (loss)	<u>(385,468)</u>
Total	<u>\$ (18,067)</u>

NOTE 3 – BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Association is a beneficiary of two perpetual trusts, whereby the Association has the irrevocable right to receive a portion of the income earned on the trusts' assets in perpetuity. The estimated values of these interests have been recorded in the Statement of Financial Position at the estimated fair value of the Association's interest in the trusts' assets. Cash receipts are recorded as income when received.

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment by major class are as follows:

Land	\$ 391,331
Building and improvements	2,429,385
Furniture and equipment	1,525,565
Automobile	86,191
Other	1,500
	<u>4,433,972</u>
Less: accumulated depreciation	<u>(2,093,650)</u>
Total	<u><u>\$2,340,322</u></u>

Depreciation expense for the year ended June 30, 2012 was \$115,200.

NOTE 5 – RELATED PARTIES

As a constituent of the National American Lung Association (National) for 2012, the Association has entered into an agreement which provides for sharing of certain support revenues based on the proportionate cost of the National American Lung Association's budget and 30% of net revenue from direct mail. Shared revenue and support paid to National was \$1,119,919 for the year ended June 30, 2012. The Association also paid to National shared costs of direct mail of \$2,395,924 for the year ended June 30, 2012. In addition, the Association received grants from National totaling \$15,966 for the year ended June 30, 2012.

As of June 30, 2012, the receivable from National was \$53,221 and the payable to National was \$151,683.

NOTE 6 – RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2012 consisted of the following:

James Griffith Endowment	\$ 101,144
Research fund	1,295,212
Camp SuperKids	3,365
Hughes Memorial Fund	2,459
Total temporarily restricted net assets	<u><u>\$ 1,402,180</u></u>

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

Permanently restricted net assets as of June 30, 2012 consisted of the following:

Hughes Memorial Fund	\$ 31,466
Camp SuperKids	15,680
James Griffth Endowment	50,677
Research fund	767,267
Beneficial interest in perpetual trusts	939,640
Total permanently restricted net assets	<u>\$ 1,804,730</u>

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Association occasionally has amounts on deposit at financial institutions that exceed the FDIC insurance limit. The Association believes there is no significant risk with respect to these deposits.

In the normal course of business the Association leases office space and various office equipment. The Association receives free rent for certain periods. The Association amortizes these rents over the life of the lease. As of June 30, 2012, the unamortized liability was \$35,060.

Future minimum rents for the fiscal years ending June 30, are as follows:

Year	Amount
2013	\$ 324,387
2014	258,885
2015	20,161
Total	<u>\$ 603,433</u>

Total occupancy and rental expenses were \$621,054 for the year ended June 30, 2012.

NOTE 8 – UNITED WAY JOINT CAMPAIGN

The Association has contracted with the United Way of Greater St. Louis, Oklahoma City and Tulsa (United Way) to conduct an annual campaign named "Joint Campaign in Business and Industry" (the Campaign). The agreements call for the United Way to act as the primary fund raising agent with business and industry on behalf of the Association. Workplace giving of \$598,296 is related to the Campaign for the year ended June 30, 2012.

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

NOTE 9 – DEFINED CONTRIBUTION RETIREMENT PLAN

The Association has a defined contribution pension plan under Internal Revenue Code Section 403(b) that covers substantially all of its employees. Employees may contribute a percentage of their salary to the plan, subject to certain limitations imposed by the Internal Revenue Code. The Association matches these contributions upon six months of service. Matching contributions of \$47,441 were included in the Statement of Activities for the year ended June 30, 2012.

NOTE 10 – DEFINED BENEFIT RETIREMENT PLAN

The Association had three noncontributory defined benefit plans for employees in Alabama, Louisiana and Mississippi who have been employed for one year and have attained the age of 21. As of June 30, 2010, the board of American Lung Association of the Mid-South voted to freeze all assets and benefits of this plan. As of June 30, 2011, these three plans were merged into one plan.

The following table shows the funded status of the Association's pension plan at June 30, 2012.

Accumulated benefit obligation	\$ 903,818
Fair value of plan assets	<u>957,965</u>
Excess of fair value of plan assets over projected benefit obligation (prepaid benefit cost)	<u>\$ 54,147</u>
Minimum liability	<u>\$ -</u>

For the year ended June 30, 2012:

Benefit cost	<u>\$ 46,544</u>
Employer contributions	<u>\$ -</u>
Participant contributions	<u>\$ -</u>
Benefits paid	<u>\$ -</u>

Assumptions used in the computation for the year ended June 30, 2012 were as follows:

Assumed discount rate	5.75%
Expected return on plan assets	6.00%
Rate of compensation increase	3.00%

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

For 2012, the expected long-term rate of return on assets assumption is 5.0% (previously 6.0%). As defined in ASC 715-20, this assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption was determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

No plan assets are expected to be returned to the employer during the July 1, 2012 to June 30, 2013 fiscal year.

Expected Future Benefit Payments

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid.

<u>Fiscal Year</u>	
2012	\$ 37,147
2013	40,079
2014	140,108
2015	94,752
2016	99,606
2017-2021	265,890
Total	<u>\$ 677,582</u>

Subsequent to June 30, 2012, the plan was terminated. Due to this termination, the Association became liable for the difference in the fair value of the plan assets and the amount required to be paid. The Association accrued \$296,000 as of June 30, 2012 for this estimated liability.

Plan Assets by Category

	<u>As of June 30, 2012</u>
Equity	30.00%
Debt securities	67.00%
General account	3.00%
Total	<u>100.0%</u>

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

NOTE 11 – ALLOCATION OF JOINT COSTS

Joint costs are the costs of conducting joint activities that are not identifiable with a particular component of the activity. The Association incurred joint costs for the distribution of informational materials in the direct mail campaign. Of these costs, \$1,338,478 was allocated to program services and \$1,057,446 was allocated to supporting services.

NOTE 12 – GIFT ANNUITIES

The Association administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Association's use. The portion of the trust attributable to the present value of the future benefits to be received by the Association is recorded in the Statement of Activities as temporarily restricted contributions in the period the trust is established. Such contributions totaled \$0 in 2012. Assets held in the charitable remainder trusts totaled \$32,837 as of June 30, 2012 and were reported at estimated fair value in the Association's Statement of Financial Position. On an annual basis, the Association revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments was \$79,407 as of June 30, 2012. The present value is calculated using a discount rate of 3% and applicable mortality tables.

NOTE 13 – DISCLOSURES ABOUT UNCERTAINTY IN INCOME TAXES UNDER FASB ASC 740

The Association files an annual federal income tax return. With few exceptions, the Association is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2009.

The Association has adopted the provisions of FASB ASC 740, *Accounting for Uncertainty in Income Taxes*. There were no unrecognized tax benefits as of June 30, 2012.

The Association recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expense. There were no such interest and penalties for 2012.

NOTE 14 – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Association and is presented on the accrual basis of accounting.

American Lung Association of the Plains - Gulf Region, Inc.
Notes to Financial Statements
June 30, 2012

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE 15 – SUBSEQUENT EVENTS

Management has reviewed events occurring subsequent to June 30, 2012 through the issue date of the financial statements, August 24, 2012. Based on this review, no events have occurred requiring disclosure.

American Lung Association of the Plains - Gulf Region, Inc.
Schedule of Expenditures of Federal Awards
June 30, 2012

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>	<u>ARRA Funds Included in Total</u>
<u>U.S. Department of Health & Human Services</u>			
Passed-through Mississippi State Department of Health Asthma Coalition of Mississippi	93.070	\$ 131,679	\$ -
Passed-through Oklahoma State Department of Health Asthma Initiative	93.072	4,761	-
Passed-through Texas Department of State Health Services Healthy Indoor Environments - TX DHHS	93.283	31,002	-
Passed-through St. of LA Department of Health and Hospitals Tuberculosis Program	93.116	85,200	-
Tuberculosis Program	93.283	25,933	-
Passed-through St. Louis County Communities Putting Partners to Work St. Louis	93.724	155,798	155,798
	94.019	35,745	-
	93.713	19,555	-
Passed-through United Way - Alabama Communities Putting Prevention to Work - ALABAMA	93.520	723,097	723,097
<u>Environmental Protection Agency</u>			
Healthy Indoor Environments	66.034	1,153	-
Passed-through Houston Advanced Research Center Environmental Health Clean Air Emissions	66.039	4,001	4,001
<u>U.S. Department of Transportation - Missouri Highway & Transportation Commission</u>			
Passed-through DOT Highway Planning and Construction - Missouri Highway and Transportation Commission Congestion Mitigation and Air Quality Agreement Voluntary Ozone Reduction St. Louis	20.205	224,180	-
Total		<u>\$ 1,442,104</u>	<u>\$ 882,896</u>



Independent Auditor's Report

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

Audit Committee

American Lung Association of the Plains - Gulf Region, Inc.
c/o Edward C. Rosentel, CPA – CFO/COO
8150 Brookriver Drive, Suite S-102
Dallas, Texas 75247

We have audited the financial statements of American Lung Association of the Plains - Gulf Region, Inc., as of and for the year ended June 30, 2012, and have issued our report thereon dated August 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of American Lung Association of the Plains - Gulf Region, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered American Lung Association of the Plains - Gulf Region, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Lung Association of the Plains - Gulf Region, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of American Lung Association of the Plains - Gulf Region, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of American Lung Association of the Plains - Gulf Region, Inc.'s financial statements will not be prevented or detected and corrected on a timely basis.

Audit Committee

American Lung Association of the Plains - Gulf Region, Inc.

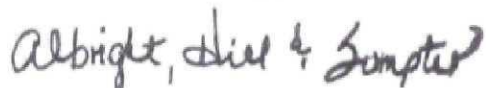
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether American Lung Association of the Plains - Gulf Region, Inc.'s financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within American Lung Association of the Plains - Gulf Region, Inc., federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Albright, Hill & Sumpter, PC
Certified Public Accountants

A handwritten signature in dark ink that reads "Albright, Hill & Sumpter". The signature is written in a cursive, flowing style.

August 24, 2012



Independent Auditor's Report

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Audit Committee

American Lung Association of the Plains - Gulf Region, Inc.
c/o Edward C. Rosentel, CPA – CFO/COO
8150 Brookriver Drive, Suite S-102
Dallas, Texas 75247

Compliance

We have audited American Lung Association of the Plains - Gulf Region, Inc.'s compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular *A-133, Compliance Supplement*, that are applicable to each of its major federal programs for the year ended June 30, 2012. American Lung Association of the Plains - Gulf Region, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of American Lung Association of the Plains - Gulf Region, Inc.'s management. Our responsibility is to express an opinion on American Lung Association of the Plains - Gulf Region, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards, and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about American Lung Association of the Plains - Gulf Region, Inc.'s compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of American Lung Association of the Plains - Gulf Region, Inc.'s compliance with those requirements.

Audit Committee
American Lung Association of the Plains - Gulf Region, Inc.

In our opinion, American Lung Association of the Plains - Gulf Region, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

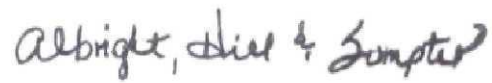
Management of American Lung Association of the Plains - Gulf Region, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered American Lung Association of the Plains - Gulf Region, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of American Lung Association of the Plains - Gulf Region, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended for the information and use of management, the Board of Directors, others within American Lung Association of the Plains - Gulf Region, Inc., federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Albright, Hill & Sumpter, PC
Certified Public Accountants


August 24, 2012

American Lung Association of the Plains - Gulf Region, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2012

Section I - Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified? ☐ Yes ☒ No

Noncompliance material to financial statements noted? ☐ Yes ☒ No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified? ☐ Yes ☒ No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA #93.250
Communities Putting Prevention to Work - ALABAMA

CFDA #20.205
Voluntary Ozone Reduction St. Louis

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Section II - Financial Statement Findings

There were no findings related to the financial statements required to be reported under generally accepted government auditing standards.

Section III - Federal Award Findings and Questioned Costs

There were no findings related to the federal awards expended required to be reported under generally accepted government auditing standards.

The accompanying notes are an integral part of this schedule.